THE Demand and Price SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

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TREND OF DAILY U. S. WHOLESALE PRICES OF BASIC COMMODITIES DURING THE PRESENT WAR IN EUROPE

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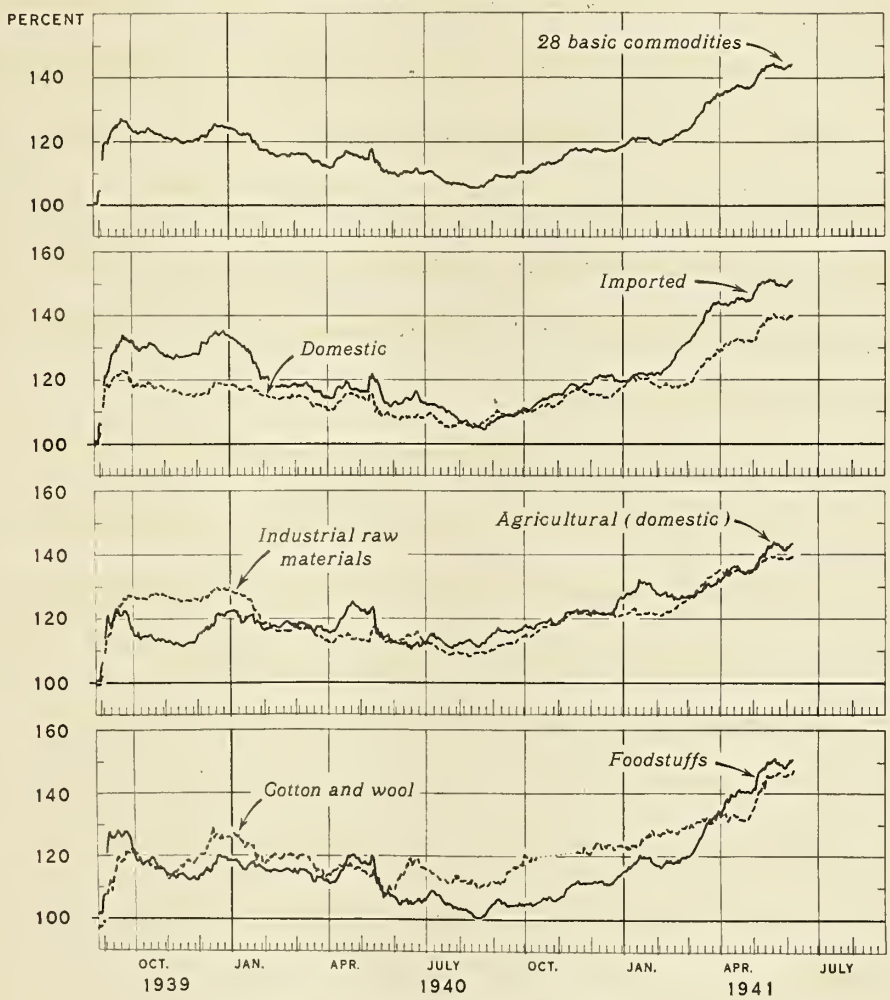

BASED ON DATA FROM BUREAU OF LABOR STATISTICS

U. S. DEPARTMENT OF AGRICULTURE NEG. 39266 BUREAU OF AGRICULTURAL ECONOMICS

Following the speculative advance in prices which accompanied the outbreak of war in Europe the general trend was downward until mid-1940. A gradual increase from this low point occurred during the remainder of that year, with a more pronounced rise in the first half of 1941. A considerable part of this advance has reflected higher prices for imported commodities affected by increased shipping costs and fears of shortages, higher loan rates on basic agricultural commodities, and the effects of the Government's food-for-defense program. Rises in prices of industrial raw materials have occurred, but they have been held within bounds by the Government's price policy.

SUMMARY

The demand for farm products continues to be favorably influenced by extension of the gains in industrial activity and the accompanying rise in consumer buying power. This upward trend in conditions affecting consumer demand for farm products is expected to continue throughout the year.

Industrial production rose to a record level in May, is rising further in June, and is expected to continue to follow a general upward course during the remainder of the year. The income of industrial workers has already risen about 20 percent from the 1940 average. Despite increased taxes and purchases of Government securities by the public, the total amount of money income left in the hands of consumers in the next 12 months will approach the record established in 1929, although on a per capita basis it probably will not reach that peak.

Agricultural exports are rising gradually from the extreme low level reached early in 1941. Operation of the lend-lease program will result in considerable increases in exports of hog products, some dairy and poultry products, and some specialty crops. Tobacco exports may also increase some, the amount being dependent on the ocean transportation situation. However, the over-all export outlook remains generally unfavorable since no marked increases in exports are in prospect for several of the commodities - such as cotton, wheat, and fresh fruits - which ordinarily are most dependent on export outlets.

The wholesale price index of 28 basic commodities declined moderately during the last 10 days of April but has since reached the highest point since May 1937, and is now 45 percent higher than when the war in Europe began. The broader weekly measure (based on 889 commodities), which has also risen moderately during the past month, is up 15 percent since the outbreak

of war in Europe, and is now at the highest point since October 1937. According to the weekly index, wholesale prices of farm products are still 17 percent lower than at the 1937 peak, when they were under the influence of the after-effects of the droughts of 1934 and 1936, but the index of prices of all commodities except farm and food products is the highest since 1930.

Price controls by the Government were extended to additional industrial commodities during the month, and other steps were taken to lessen speculative activity in several imported commodities. These measures, and the substantial adjustment of farm commodity prices to revised national programs which had already taken place, account in large part for the reduced speed of the advance in wholesale prices. Underlying economic conditions remain definitely favorable to further advances in the general level of wholesale prices, but the extent and rate of further gains will continue to be modified by the vigor with which Government controls are applied.

Prices received by farmers rose two points in May to 112 percent of the 1910-14 average, following the seven-point rise of April, but they were still 15 percent lower than in January 1937. Farm income from sales increased about the usual seasonal amount from April to May but was up sharply from a year earlier. The index of prices received in June apparently will show another gain, and income from sales is expected to rise seasonally and to again be up sharply compared with June 1940.

-- June 17, 1941

The situation by commodities is as follows:

Wheat: Domestic wheat prices in mid-June were close to the high for the season to date and moderately above a month earlier. Following a decline in the latter part of May, wheat prices have since advanced, influenced by an affirmative vote in the marketing quota referendum on May 31 and by destructive rains and high winds in the Southern Great Plains States.

Cotton: Largely as an adjustment to the higher 1941 loan rate, domestic cotton prices made an advance of slightly more than 1 cent during the past month. On June 14 Middling 15/16 inch in the 10 markets averaged 13.75 cents, the highest price in over 4 years. During the first 10 months of this season cotton consumption totaled 7.9 million bales, a 20-percent gain over last season. May consumption, which totaled 910,000 bales, was slightly below the April record, but the seasonally adjusted index of cotton consumption established a new high of 164 compared with 156 in April. A power shortage may force a reduction in cotton consumption in some of the Southeastern mills in the near future. Activity in the cloth market was resumed in early June following a slowing up which accompanied the consideration of and establishment of a ceiling over combed cotton yarn prices. Manufacturers' cloth margins in May gained 1 cent over April. Exports of 72,000 bales during May make the 10-month total, 976,000 bales, a reduction of 84 percent from last season's level. Little improvement is expected in domestic exports in the months immediately ahead.

Feed grains: Prospects for 1941 production of feed crops were good on June 1, and total supplies of feed may be larger this year than last. Prices of feed grains will be influenced by changes in new crop prospects during the next few months, but the extent of price changes will be limited by counteracting effects of the loan program and the large stocks.

Hogs: Slaughter supplies of hogs will decrease seasonally during the next month or so, and total marketings during the next few months are expected to be smaller than a year earlier. Hog prices advanced sharply during May. They weakened a little in early June but strengthened again toward the middle of the month. Hog slaughter in May was 6 percent larger than in April and 3 percent larger than in May last year.

Beef cattle: Cattle slaughter increased sharply in May, indicating an increase in marketings of grain-fed cattle. Prices of all grades of slaughter cattle strengthened somewhat in early June following the continued sharp decline in prices of the upper grades during May.

Lambs: The outlook for the 1941 lamb crop continued mostly favorable in May and early June. Slaughter of sheep and lambs during May was 9 percent larger than in May last year, but prices of lambs have continued slightly higher than a year earlier during the past few weeks.

Wool: The 1941 wool clip is moving rapidly from producing centers. Prices received by growers this spring are

30 percent higher than a year earlier and are higher than at any time since 1928-29. The small carry-over of domestic wools, prospects for a record mill consumption in 1941 and some uncertainty as to shipping facilities for foreign wools have been important factors supporting prices for domestic wools this year. Imports of apparel wool in 1941 are expected to surpass the previous record of 378 million pounds set in 1918.

Dairy products: Total milk production on June 1 was 5 percent larger than a year earlier. Both milk production and prices of dairy products during the remainder of the year are expected to continue much higher than a year earlier.

Poultry and eggs: Farmers apparently are continuing to expand their laying flocks in response to higher egg prices. Egg production in the next few months is expected to be about the same as a year earlier, but beginning in early fall total output will tend to increase relative to corresponding months of 1940 as more pullets are added to laying flocks. Farm prices for all poultry products for the remainder of 1941 are expected to be above those a year earlier.

Fats, oils, and oilseeds: Present indications point to a slight increase in output of fats and oils from domestic materials in 1941 over the record production in 1940. Imported supplies are likely to be reduced. Prices of fats and oils in May averaged 10 percent higher than in April, 30 percent higher than in January, and 40 percent higher than in May last year. The price advances reflect improvement in domestic demand, some reduction in imports, rising shipping rates for imported materials, and Government purchases of lard and dairy products. With comparatively low prices prevailing for oilcake meal, prices of domestic oilseeds have not changed so much in recent months as prices of oils.

Fruits: Fruit supplies in the 1941-42 season are indicated to be slightly larger than in the preceding year. The increase in the total supply of fruit available for domestic consumption probably will be about as great as the increase in production since no appreciable change in the fruit export situation is in prospect during this period. Increased consumer purchasing power and demand for fruits will at least partly offset the effects of these increased supplies, and returns to growers generally will be larger than in the 1940-41 season.

Potatoes: Market prices of potatoes rose sharply during recent weeks as the drought cut down the prospective yield in the commercial second early and intermediate areas.

Truck crops: Continued unfavorable growing weather held back truck crop production during May and resulted in less than the usual seasonal increase in marketings. Prices in general in early June were higher than those a year earlier, but if the weather improves they may decline more than seasonally during the next few months.

DOMESTIC DEMAND

The defense program is continuing to influence favorably the industrial conditions affecting the domestic demand for farm products. Following the widespread interruptions to industrial activity in April, incident to the record direct loss of 7.8 million man-days because of strikes, recovery has been rapid. Industrial production, as measured by the Federal Reserve index, is estimated to have averaged 148 percent of the 1935-39 average in May, 5 points above the previous record reached in March. The present level probably is around 150 and further gains are in prospect during the last half of this year. These increases in industrial operations will be accompanied by substantial gains in employment and in the income of industrial workers.

Nonagricultural civilian employment in April reached a new record level, according to Bureau of Labor Statistics estimates, despite a temporary reduction of 317,000 in the number of employed miners. From the time of the preliminary census estimate of unemployment in late March 1940 to April 1941 there was an estimated increase in total employment, exclusive of emergency workers, of 4,200,000. Allowing for an estimated increase in the working force of 800,000, this indicates a decrease in unemployment of 3,400,000. This is a reduction of more than 40 percent from the March 1940 census estimate of 8,016,000 either without jobs of any kind or working on emergency projects.

This rapid absorption of the unemployed and Federal Security Agency reports of shortages of available skilled labor for many types of defense activity are suggestive of the increasing difficulties that will be encountered in obtaining satisfactory workers for production in the new defense plants now reaching completion. Another indication of the growing difficulty of attaining further rapid increases in industrial output is the report of the National Industrial Conference Board on the ratio of production to plant capacity for more than two hundred manufacturing companies. These Conference Board surveys show that the average production rate was 79 percent of rated capacity in September 1939, 84 percent a year later, and 98 percent at the end of March 1941. This does not mean, however, that little further gain in output can be attained with existing facilities of these plants, since rated capacities are based on the usual working time rather than continuous or near-continuous operation. In fact, 20 of the 206 companies covered in the March 1941 survey were already operating at upwards of 130 percent of rated capacity, and 73 additional companies were operating at between 100 and 130 percent. Further increases in production, even without new facilities, thus are possible, but they will be secured with constantly increasing difficulty.

The prospective increase in output through added plant facilities is, of course, substantial. In 1940, according to preliminary estimates, there was a 7 percent gain in the amount of capital invested in manufacturing facilities, and data on the value of contracts awarded for the building of factories during the first 4 months of 1941 suggest that the increase in plant facilities this year may be double that in 1940.

In order to attain anything like the desired increase in production of military equipment and supplies it will be necessary to limit the civilian use of many products important to defense. This will be particularly true of the durable types of consumer goods. Limitation of the volume of such goods for civilian consumption will tend to increase the portion of available funds which may be used for nondurable goods and services, such as foods, clothing, and recreation.

Income payments to individuals in 1941 are expected to be larger than for any previous year, and in terms of purchasing power they will be about 20 percent above the 1929 peak. A part of this gain in income will be drained off through substantial increases in taxes and through the sale of defense bonds to the public. However, allowing for these offsetting factors and taking into account the lower cost of living, prospective income for 1941 will afford a standard of living for the average individual considerably higher than that in 1929.

Considering the outlook for further increases in industrial activity and consumer income, and the price-supporting effects on important farm products of the higher loan rates which will apply to 1941 output and of the food-for-defense buying operations of the Government, it seems probable that prices farmers receive will maintain the recent gains and that income from sales will increase substantially in 1941, probably to the highest point since 1929.

EXPORT DEMAND

Although the unfavorable over-all export outlook for the demand for farm products continues, purchases of food by the Government for use both in carrying out domestic defense and relief programs and for export continue to have an important effect upon farm prices and incomes.

No marked increases in exports appear in early prospect for cotton, wheat, fresh fruits, and most other commodities which are ordinarily exported in large volume. Some increase is anticipated for tobacco but the ocean transportation situation makes doubtful a return to the pre-war export volume.

The President's report to Congress concerning allocations and transfers under the Lend-Lease Act up to May 31, 1941 gave some definite information concerning agricultural products. Agricultural products transferred under the Lend-Lease Act up to May 31, 1941 were valued at 8 million dollars. Of the total of 4.2 billion dollars which had been allocated 55 million dollars was for agricultural products; of this latter amount all but 3 million dollars was for foodstuffs. Allocations for dairy products and eggs totaled 31.7 million dollars: meat, fish and fowl, 6.1 million; fruits, vegetables and nuts, 6.0 million; grain and cereal products, 3.1 million; lard, fats, and oils, 3.6 million; and other foodstuffs, 1.5 million dollars.

With continental European sources of supply cut off, needs of deficit food-producing areas for many products which can be obtained from the United States under the Lend-Lease Act will result in abnormally heavy exports of

some items which are not ordinarily important export products. These increases, however, will not be sufficient in value to offset the prospective reduction in exports of the farm commodities which are ordinarily dependent in greater degree on foreign demand. Consequently, any near-term rise in exports is expected to be small compared with the decline which occurred following the invasion of the Low Countries and the collapse of France about a year ago, although the percentage increases from recent extreme low levels of export business may be quite marked.

WHOLESALE PRICES

Following a temporary relapse during the final 10 days of May, wholesale prices of basic commodities resumed their rise and have since reached the highest level since May 1937 and are now 45 percent higher than when the war in Europe began. Although the net gain since mid-May is a moderate one it marks the fourth consecutive monthly rise. The total gain since February amounts to more than 20 percent, according to the Bureau of Labor Statistics daily index of 28 basic commodities. Furthermore, each of the five groups of commodities used in the general index of basic prices is contributing to the continued rise (see cover page chart).

The broader measures of price movements (the monthly and weekly Bureau of Labor Statistics indexes of prices of 889 commodities) also have continued the advance in evidence since February. Recent gains have been particularly marked in the farm product and fuel and light groups and considerable in the food, textile, and hide and leather groups. The index of wholesale prices of all products except farm and food products is now the highest since 1930. The general index of wholesale prices of farm products is 17 percent lower and that of food product prices about 7 percent lower than at the peaks of 1937, when prices were under the influence of the after-effects of the droughts of 1934 and 1936.

Governmental action to limit price increases is being extended to additional commodities, ceilings having recently been placed on prices of combed cotton yarns and nickle scrap. Previously similar action had been taken toward various nonferrous metals, steel, aluminum and steel scrap and other commodities. In addition, price-restraining actions and proposals have affected markets for hides, rubber, pepper and various other import commodities. Although Governmental controls over commodity prices will become more numerous and insistent as the defense program grows, increases in military and consumer demand which will accompany growing pressure on the capacity to produce, and higher production costs accompanying increased wage rates, will continue to exert upward pressure on prices.

Further increases in the general level of wholesale prices are expected, although the extent of the near-term rise will depend in large measure on the vigor with which Government price controls are exercised. Over the longer-term the extent of the rise will depend also on the success of tax and savings policies in adjusting consumer buying power to the volume of available consumption goods. Farm and food product prices will continue under the favorable influence of improving domestic economic conditions, Government purchases of food, Government loan programs, and the price-supporting measures designed to encourage increased production of meats, dairy and poultry products, and some fruits and vegetables.

PRICES RECEIVED AND PAID BY FARMERS

Prices received by farmers are estimated, on basis of price movements in wholesale markets, to have advanced further in June. The general index in May was 112 percent of the 1910-14 average, up 2 points from April and 14 points from May 1940.

Advances in prices received by farmers since March have been particularly large for the cotton-and-cottonseed and poultry-and-egg groups, but there have also been large gains in the indexes of prices of grains, truck crops, and fruits, and somewhat smaller rises in the meat animal, dairy product, and miscellaneous groups. Preliminary indications point to some further general advance in prices received by farmers this month although the dairy product and meat animal groups may show little if any advance.

Improving economic conditions will continue to exert an upward pressure on prices of farm products in general, while the various Government programs, which have been important aids to the recent advance, will offer strong support to maintenance of the higher price levels attained by the individual products affected.

Prices paid by farmers rose another point in May to 125 percent of the 1910-14 average, compared with a rise of 2 points to 112 in prices received. The ratio of prices received to prices paid rose another point in May to 90 percent of the 1910-14 average, 10 points above May 1940, but 11 points below the 1937 peak. This ratio stood at 74 in August 1939, but has followed a general upward course since the start of the present war in Europe.

HOGS

Slaughter supplies of hogs will decrease seasonally during the next month or so, and total marketings during the remainder of the 1940-41 marketing year (June-September) are expected to be smaller than a year earlier. Present indications point to a reduction of around 10 or 15 percent. So far in most months of the current marketing year, hog slaughter has been larger than appeared probable last fall. It now seems likely that the total number of hogs slaughtered under Federal inspection during the 1940-41 marketing year (October-September) will not differ greatly from the 47.6 million head slaughtered in 1939-40.

About 5 percent of all hogs sold at 7 leading markets during May were packing sows. In May last year the proportion was 8 percent. These figures and total marketings indicate that the number of sows sold for slaughter during May was around 30 to 35 percent less than in May last year. Since most of the fall pig crop is raised from sows which farrowed the preceding spring, it appears that the number of sows being held back for fall farrow is considerably larger this year than last and that the 1941 fall pig crop will be larger than the fall crop last year.

Hog prices advanced sharply during May. They weakened a little in early June but strengthened again toward the middle of the month. The average price of all hogs at Chicago for the week ended June 7 was $9.35. This compares

with $8.60 in early May, $7.70 in early April, and $5.10 in the corresponding week of 1940. On June 13 the top price for hogs at Chicago advanced to $10.00, the highest price reached in about 3 years. Although some of the price advantage recently gained by heavy hogs has been lost in the last week or so, the spread between the prices of the different weight groups is still narrower than usual for this time of year.

Hog prices have advanced somewhat more than corn prices during the past few weeks, and the hog-corn price ratio has improved. The ratio of the average price of hogs and of No. 3 Yellow corn at Chicago for the week ended June 7 was 12.6, compared with 12.1 a month earlier, 7.7 a year earlier, and the long-time average of 11.6.

The weekly rate of hog marketings continued larger than a year earlier during most of May, and the total number of hogs slaughtered under Federal inspection during the month was 4,023,000 head, or about 6 percent more than in April and about 3 percent more than in May of last year. So far in the 1940-41 marketing year (September through May), inspected hog slaughter has totaled 39,109,000 head, or about 5 percent more than in the corresponding period a year earlier. The average weight of hogs marketed during May was about 3 or 4 pounds heavier than in May last year despite the smaller proportion of packing sows in total marketings.

CATTLE

Inspected cattle slaughter in the first 4 months of 1941 totaled 129,000 head (about 4 percent) more than a year earlier. Practically all of the increase over the corresponding period of 1940 was in cows and heifers. Slaughter of steers was slightly smaller than in January-April a year ago. Although it is likely that some of the increase in cow and heifer slaughter represented marketings of grain-fed heifers, these figures bear out earlier indications that cattle numbers have now increased to the point at which total marketings of cattle can increase at the same time that herds are being built up further.

Slaughter of cattle increased sharply during May, apparently as a result of increased marketings of grain-fed cattle. The number of cattle on feed in the Corn Belt on April 1 was 16 percent larger than a year earlier. Inspected slaughter for the month totaled 908,000 head, 15 percent more than in April and 14 percent more than in May last year. Inspected calf slaughter of 501,000 head during May was slightly smaller than a month earlier but about the same as a year earlier.

Prices of all grades of slaughter cattle strengthened somewhat in early June following the continued sharp decline during May. The average price of good grade beef steers at Chicago for the week ended June 7 was $10.60, compared with $10.55 a month earlier and $9.55 in the corresponding week of 1940. Since last January prices of the upper grades of slaughter steers have followed a sharp downward trend, with the decline most pronounced for the heavier weights, while prices of lower grades of slaughter cattle have held about steady.

Prices of feeder cattle also have weakened considerably during the past 2 months, reflecting the downward trend in prices of fat cattle. The average

price of feeder steers at Kansas City for the week ended June 7 was $9.80 compared with $10.60 in early April.

LAMBS

The outlook for the 1941 lamb crop continued mostly favorable during May and early June. Pastures and ranges were benefited by rains in most areas, and adequate supplies of green feed are assured for the next several weeks at least. Little contracting of feeder and fat lambs for fall delivery has been reported in the Western sheep States this spring. The market movement of spring lambs and shorn yearlings was delayed in April by excessive rains. Marketings increased substantially in May, however, and are likely to continue larger than a year earlier for the next several weeks. No definite information as to the size of the 1941 lamb crop is yet available, but the number of stock sheep on farms and ranches is a little larger this year than last, and lambing conditions are reported to have been exceptionally favorable this spring.

Prices of both old and new crop lambs weakened a little in late May, reflecting the fairly heavy marketings during the month. Prices strengthened again in early June, however. The average price of good and choice grade spring lambs at Chicago for the week ended June 7 was $11.90, little different from prices 4 weeks earlier but about 65 cents higher than in the corresponding week of 1940. Prices of shorn old crop lambs were about 50 cents higher than a year earlier. The increase in slaughter supplies this spring over last has been more than offset by stronger consumer demand for meats and the seasonal decline in prices in early summer may not be as great this year as last, when it was unusually sharp.

The number of sheep and lambs slaughtered under Federal inspection during May totaled 1,551,000 head, 8 percent more than in April and 9 percent more than in May last year. Slaughter of sheep and lambs in the first 5 months of 1941 (January-May) totaled 6 percent greater than a year earlier, reflecting the larger number of lambs on feed January 1 this year than last and the larger number of early spring lambs and shorn yearlings marketed during the past month or so.

WOOL

If the rate of mill consumption reported in the first quarter of 1941 is maintained through the year, as now appears likely, consumption of apparel wool in 1941 will be about 450 million pounds, scoured basis (about 900 million pounds grease basis). The largest consumption previously reported was 371 million pounds, scoured basis, in 1918. Unfilled orders for mens' wear cloth reported by mills in April were large enough to support a record rate of activity through the third quarter of 1941. It is expected that additional orders for army materials will be placed under the 1941-42 appropriation which becomes available July 1.

Farm sales of the 1941 wool clip are well advanced and wool is moving rapidly from producing centers. Prices received by farmers this spring are about 30 percent higher than a year earlier and are higher than at any time since 1928-29. The average price received by growers was 36.1 cents a pound

on May 15 compared with 34.7 cents on April 15 and 27.6 cents on May 15, 1940. The small carry-over of domestic wools, prospects for a record mill consumption in 1941, and some uncertainty as to shipping facilities for foreign wools are important factors in the higher prices for domestic wools this year.

Mill consumption of apparel wool in April was slightly smaller than the record consumption in March. But the consumption in April was nearly three times as large as in April 1940 and was the second largest monthly consumption on record. Imports reported so far this year have been larger than in the corresponding period of any previous year. With the new domestic clip now available, imports are likely to decline in the late spring and summer, but total 1941 imports are expected to surpass the record of 378 million pounds (mostly grease basis) set in 1918.

CORN AND OTHER FEED GRAINS

Growing conditions so far this year have been favorable throughout practically the entire Corn Belt, and feed supplies for 1941-42 may be as large as the supply last year, if not larger. Recent rains have improved the condition of forage and feed grains in the Northeast section of the country, but moisture is still deficient in large areas in the Southeast. Corn prospects are good and the 1941 corn supply may be larger than the large 1940 supply but much will depend on the weather during July and August. The 1941 barley supply (June 1 farm and commercial stocks plus indicated production) is 389 million bushels, about 21 million bushels larger than the 1940 supply. The 1941 oat crop was indicated to be about 118 million bushels smaller than that of last year, but the carry-over of oats will be much larger and supplies may be about the same. The hay crop is expected to be smaller this year. The total supply of hay (production plus May 1 stocks) will probably be much above the 1930-39 average of 89 million tons and may again exceed 100 million tons. Present indications are that supplies of all feeds will again be large in relation to the number of livestock to be fed.

Corn and oats prices were practically unchanged from the middle of May until early June, while barley prices declined about 2 cents per bushel. Cash corn prices have advanced about 12 cents per bushel since March 1, influenced primarily by the new legislation increasing the loan rate on 1941 corn to 85 percent of parity. The parity price of corn on May 15 was 83.5 cents per bushel. Eighty-five percent of the May 15 parity price would be 71 cents per bushel. The loan rate on 1940 corn was 61 cents per bushel. Prices of oats and barley, and to a lesser extent corn, will be influenced by changes in crop prospects during the next few months, but feed prices will be stabilized to some extent by the counteracting effects of the large stocks and the Government loan program.

During April and May farmers redeemed over 6 million bushels of sealed corn and the Government sold about 24 million bushels. On June 1 about 210 million bushels of corn remained under Government ownership and about 295 million bushels were sealed on farms.

WHEAT

Domestic wheat prices in mid-June were close to the high for the season to date and about 2 to 6 cents higher than a month earlier. No. 2 Hard Winter

wheat at Kansas City is about 14 cents below the loan value established for the 1941 crop. Each season since the Government wheat loan programs were inaugurated in 1938 prices have remained below the loan rates until a substantial part of the new crop has been placed under loan. In late July 1939 the price of No. 2 Hard Winter at Kansas City declined to 18 cents below, and in mid-August 1940 it was about 12 cents below the loan rate.

This year the development of congestion at localized points may offset a part of the influence of the loan program in certain areas. However, every effort is being made by the Department to guard against market congestion that may develop in connection with the movement of the new crop as a result of the largest carry-over of old wheat in history.

The loan rate for the 1941 crop at 85 percent of parity will approximate a national average to farmers of 98 cents a bushel. In terms of terminal markets the values are: No. 2 Hard Winter at Kansas City $1.10, and at Chicago $1.15; No. 2 Red at St. Louis $1.15; No. 1 Dark Northern Spring at Minneapolis $1.15; and No. 1 Soft White at Portland $1.05.

Domestic wheat prices, influenced by uncertainties connected with the signing of the loan bill and the forthcoming wheat referendum, and by the heavy movement of old grain and expected upward revisions in new crop estimates, declined in the latter part of May. Following an affirmative vote in the marketing quota referendum on May 31, however, and also as a result of the heavy beating rains and high winds, which were destructive in the Southern Great Plains States, prices again advanced.

The amount that current prices are now above the export price levels is indicated by the export indemnity which would be required to export wheat to Europe. Computed on the basis of export values, this would be about 36 cents from the Gulf and 27 cents from Pacific ports, compared with 34 and 25 cents, respectively, a month ago. Prices of domestic spring wheat at Buffalo are about 7-1/2 cents lower than those of Canadian wheat of a comparable quality, c.i.f., duty paid, at Buffalo, which is the same as a month ago.

On the basis of the June 1 indication of a crop of 911 million bushels and a carry-over of about 400 million bushels, a total supply of 1,310 million bushels is indicated. With domestic disappearance estimated at 650 million bushels, there would be about 660 million bushels available for exports, shipments and carry-over. This is about 230 million bushels above similar supplies in 1940-41.

FATS, OILS, AND OILSEEDS

Present indications point to a smaller reduction in the output of lard and greases in the United States this year than had been anticipated earlier. With production of butter, cottonseed oil, linseed oil, and peanut oil currently above last year's levels, it is possible that total production of fats and oils from domestic materials may be slightly larger in 1941 than the record output in 1940. Much will depend, however, on the outturn of field crops this year. Crop conditions are reported to be generally favorable at present except in the Southeast, where there is a shortage of moisture.

Prices of fats and oils in May averaged 10 percent higher than in April. The wholesale price index for 27 fats and oils in May, at 87 percent of the 1924-29 level, was 30 percent higher than in January and 40 percent above that of May 1940. As exceptions to the rather general advances, prices of linseed oil and perilla oil in May were about the same as a year earlier, while prices of castor oil and rape oil were lower. Prices for these oils were relatively high last year.

Factors supporting the recent price advances have included growing strength in domestic demand, together with a moderate reduction in imports of oilseeds and oils as a result of tightness in the ocean shipping situation, particularly on the Philippine-United States route. Imports normally account for 10 to 15 percent of the total supply of fats available for domestic use, with coconut oil and copra from the Philippines constituting about one-third of total imports. Rising shipping costs for imported materials generally, and Government purchases of lard and dairy products, also have been supporting factors.

Prices of domestic oilseeds have not changed so much as prices of domestic oils, mainly because of the comparative stability in prices of oilcake meal. Flaxseed prices in May were slightly lower than a year earlier, and peanut prices were about unchanged. The farm price of cottonseed, however, was about $1.00 per ton higher in May this year than last, and soybean prices were up about 24 percent.

FARM INCOME

Income from farm marketings, which made at least the usual seasonal increase over April, was sharply higher in May than in May 1940. Marketings of meat animals were higher than a year earlier, and prices were up nearly 30 percent, resulting in a substantial increase in farm income. Production of dairy and poultry products was as large as that a year earlier, or slightly larger, and prices and income were materially higher. Income from crops was not greatly different than in May last year, but was up seasonally from April. Government payments in May amounted to 24 million dollars compared with 28 million in May last year and 39 million in April.

Present indications are that the income from livestock and livestock products during the next few months will continue to total substantially higher than in the same months of 1940. Income from crops during the first 5 months of this year was less than in the same months last year, but during the next few months substantial increases over a year earlier are expected as a result of the higher loan rates on wheat and cotton and the prospective increase in the wheat crop this year.

Income from vegetables during recent months has been lower than a year earlier because of the relatively low prices of potatoes, but with a smaller potato crop in prospect prices in recent weeks have advanced sharply. Income from truck crops both for fresh market and for process during the heavy marketing period is expected to be somewhat larger than a year earlier so that income from all vegetables should increase more than seasonally in the next few months. Income from fruits in recent months has been somewhat higher than a year earlier, and this higher level of income is expected to continue. In

view of these prospects of income from the different farm products, the increase in farm income over the corresponding months of 1940 may become more pronounced in the next few months than it was in April and May, and income from farm marketings in 1941 may be substantially higher than in 1940.

COTTON

Cotton prices continued to advance during the past month and on June 14 Middling 15/16 inch averaged 13.75 cents per pound. This was slightly more than 1 cent higher than at the middle of May and the highest price in over 4 years. During the past month the gains in futures prices at New York slightly exceeded gains in spot prices of the 10 markets. The greatest gains in futures prices occurred in the more distant months. If the average farm price has risen since mid-May by about the same amount as the 10-market price, the farm price in mid-June is nearly 80 percent of the May parity farm price of 16.12 cents. The increase in cotton prices was largely an upward adjustment to the 1941 loan level. During the last week of May and the first week of June rising prices perhaps also reflected the speculative response to generally unfavorable crop conditions over much of the cotton belt.

Domestic cotton consumption totaled 919,000 bales during May, making a 10-month record total of 7.9 million bales. This is 1.3 million bales, or 20 percent, above the level for the corresponding months a year ago. Despite a 1,000-bale decline in consumption from the record for April, the seasonally adjusted index of cotton consumption rose to 164, a gain of 8 points over the record high of April. The establishment of a ceiling for combed cotton yarns probably accounted for some slackening in textile sales during the last part of May, but the effect was short-lived and in early June unfinished textile sales again exceeded current production. A shortage of electric power in some of the Southeastern States where rainfall has been deficient threatens to force the curtailment of operations in that area. Manufacturers' gross margins (the difference between the price of a pound of cotton and its approximate cloth equivalent) averaged 20.8 cents in May for 17 constructions on unfinished cloths compared with 19.8 cents in April and 11.4 cents in May 1940.

Repossessions of loan cotton for the month ended June 7 totaled about 674,000 bales. This included 247,000 bales from the 1938 loan, 3,000 bales from the 1939 loan, and 424,000 from the 1940 loan. On June 7 the Government owned 6,126,000 bales from the 1934 and 1937 crops and held 1,323,000 bales as collateral, making the total Government holdings about 7,450,000 bales.

Exports for the 10 months, August-May totaled 976,000 bales compared with 5.9 million bales during the same period last season. Of this amount 72,000 bales were shipped during May. In view of the limited shipping space and increasing price disparities between American and foreign growths, resulting largely from rising domestic prices, there is little likelihood of much improvement in the export situation for American cotton in the coming months.

DAIRY PRODUCTS

Despite the effects of the drought in the eastern half of the United States, total milk production on June 1 was 5 percent larger than a year earlier and the largest on record for that date. Total production of the principal manufactured dairy products during April was 8 percent larger than in April 1940. During the remainder of the year production is expected to average well above a year earlier unless weather conditions are very unfavorable.

On June 1 pasture conditions in the North Atlantic States were the poorest on record and in the South Atlantic States were the poorest on record except for 1936. On the other hand, conditions in the Western States were the best since 1923. A similar situation exists for hay crops. During May the butterfat feed ratio continued more favorable to producers than a year earlier and more favorable than the 1925-29 average for May.

On June 4 the Secretary of Agriculture announced that, on the basis of anticipated requirements, American cheese production should be increased by about one-third and evaporated milk production by about one-fourth. The Department in recent months has purchased or contracted to purchase 26 million pounds of American Cheddar cheese and 1-3/4 million cases of evaporated milk.

During May the into-storage movement for butter was the largest on record. Stocks of butter on June 1 were over twice as large as a year earlier, while stocks of cheese were about 40 percent larger, and the largest on record for the month.

Prices of 92-score butter at Chicago declined from 35.5 cents per pound on May 17 to 34.5 cents on June 11. Prices of cheese (twins) on the Wisconsin Cheese Exchange have been steady at 18 cents since May 10. Butter and cheese prices during May were the highest for the month since 1929. Prices of dairy products are expected to continue much higher than a year earlier but the seasonal increase during the remainder of the year may be somewhat less than usual.

POULTRY AND EGGS

Farmers apparently are continuing to expand their laying flocks in response to higher egg prices. Production of chicks by commercial hatcheries in May was about one-fourth larger than in May 1940, and the total output in the first 5 months of this year was about one-fifth larger than a year earlier. More chicks were used for producing commercial broilers this year than last, but the number of chickens raised on farms this year is expected to be 10 percent or more above 1940. This will increase the number of layers for the 1941-42 season.

Total egg production now is about the same as a year earlier. The rate of lay is the highest on record but fewer layers are on farms now than a year ago. Egg production to date this year was 3 to 4 percent larger than a year earlier but summer production in 1941 is expected to be about the same as in 1940. The larger number of pullets raised this year will begin to show up in laying flocks after the seasonal low point in number of layers in August. Total egg output next fall and winter, therefore, may be the largest on record for that period.

Wholesale egg prices advanced about 2 cents from mid-May to mid-June and are now 7 to 8 cents (40-50 percent) higher than a year ago. Egg prices, in general, are expected to continue well above those of a year earlier during the rest of 1941. However, the increase from June to the fall peak may be smaller this year than last primarily because of the prospective large fall production.

This year's large chick output is beginning to increase supplies of poultry meat materially. Prices of young stock have declined somewhat in recent weeks and are low relative to fowl prices. This disparity probably will continue for several months because of the restricted supplies of fowl and large supplies of young stock to be marketed, but prices received by farmers for chickens are expected to continue higher than a year earlier during the remainder of the year. Turkey production this year probably will be about as large as in 1940.

FRUITS

Fruit supplies in the 1941-42 season are indicated to be slightly larger than in the preceding year. The increase in the total supply of fruit available for domestic consumption probably will be about as great as the increase in production since no appreciable change in the fruit export situation is in prospect during this period. Increased consumer purchasing power and demand for fruits will at least partly offset the effects of these increased supplies, and returns to growers generally will be larger than in the 1940-41 season.

Production of peaches, California dried prunes, apricots, strawberries, citrus, California grapes, and California plums is indicated to be greater than a year ago. Production of pears and cherries is indicated to be smaller, and the conditions of commercial apples on June 1 was slightly below that of a year earlier.

The Agricultural Marketing Service estimated, as of June 1, that the peach crop this summer would total 66.1 million bushels compared with 54.4 million in the summer of 1940. The crop in California is indicated to be smaller this year, but that in the rest of the country is indicated to be considerably greater. If the peach marketing season is normal this year, increased consumer purchasing power probably will more than offset the adverse effect on prices of increased supplies.

The estimate of grapefruit production has been increased to 43.7 million boxes, a record crop. Total winter and mid-season orange production from the bloom of 1940 is now placed at 54.2 million boxes compared with 48.8 million boxes from the bloom of 1939. The California Valencia crop, which is marketed mainly during the summer months, is estimated to total 25.1 million boxes this summer compared with 26.9 million boxes in the summer of 1940. Despite a smaller California Valencia crop this year and increased consumer purchasing power, prices of California Valencias are currently running below those of a year ago. This is largely due to increased competition of mid-season oranges this year over last. It is probable that prices of California Valencias will increase relative to those of a year ago as soon as the remaining mid-season oranges have been marketed.

Approximately 3.7 million bushels of apples were withdrawn from cold storage in May compared with 2.5 million withdrawn in April 1940. As a result of these heavier marketings prices of apples did not obtain the rise that occurred in May 1940, and the monthly average was below that of a year earlier for the first time in the 1940-41 season.

POTATOES

Market prices of potatoes rose sharply during recent weeks as the drought cut down the prospective yield in the commercial second early and intermediate areas. The crop in these areas has been reduced materially from earlier expectations, and the prospect is that market supplies for the last half of June and early July probably will be substantially smaller than those in the comparable period a year earlier.

Production in the second early group of States is now indicated to total 4 million bushels or 1 million less than that indicated a month ago and 2.2 million bushels less than that of 1940. In the first section of intermediate States, where the acreage planted this season is slightly larger than that of 1940, the commercial crop is indicated to total only 7.6 million bushels. This is 3.3 million smaller than the production in this area last season and 4.3 million smaller than the 10-year (1930-39) average. Recent rains have improved conditions considerably and probably will delay the beginning of harvest somewhat. A considerable portion of the production in the second section of early States still remains to be marketed, however, and the crop in this area is about 2 million bushels larger than that of last season. Also the acreage planted in the second section of intermediate States is considerably larger than that of last season. Marketings from this area will begin in July.

Marketings of old stock potatoes are continuing in considerable volume with Maine and Idaho supplying the bulk of recent carlot shipments. Diversions to livestock feed and to starch manufacture were continued during May.

TRUCK CROPS

Unfavorable weather continued to retard truck crop production during May and resulted in smaller than normal marketings and a relatively high level of prices. Snap beans, beets, cucumbers, cabbage, onions and green peas were especially set back. Production of truck crops for immediate marketing is indicated to be about the same as the relatively small output a year earlier. With a few weeks of favorable growing conditions, however, production would increase in the shipping areas, a development which together with supplies coming from the market garden areas would change the situation considerably.

The drought in the mid-West and over most of the eastern areas was broken by general rains during early June but it is still dry in many sections of the Southeast. From New Jersey southward truck crops have been damaged considerably. In Texas too much rain during the latter part of May caused further losses of cucumbers and onions. In the far Western States the weather was favorable for the growth of truck crops but a large number of items are now on a local marketing basis.

Partly as a result of the relatively small supplies of truck crops made available this season to date and partly as a result of rising purchasing power of consumers, market prices continued to show less than the normal seasonal decline and during May averaged generally above those of a year earlier. Prices of asparagus, lima beans, snap beans, broccoli, cabbage, onions, green peas, green peppers, squash, and tomatoes were particularly higher than those of a year earlier while prices of beets, cantaloups, carrots, cauliflower, celery, cucumbers, and lettuce, were lower.

The supplies of canned vegetables remaining from the 1940 pack are rapidly being depleted, and the prospect is that very small quantities will be carried over into the 1941 season. As a consequence, prices of most items have advanced considerably during the last month. The Department of Agriculture canned-tomato purchases total about 1.0 million cases of spot stocks and 1.6 million cases of futures.

ECONOMIC TRENDS AFFECTING AGRICULTURE

INDEX NUMBERS: INDICATED BASE PERIOD = 100

YEAR AND MONTH	INDUSTRIAL PRODUCTION[1]	FACTORY EMPLOYMENT[2]	FACTORY PAY ROLLS[2]	INCOME OF INDUSTRIAL WORKERS[3]	VOLUME OF AGRICULTURAL EXPORTS[4]	WHOLESALE PRICES OF ALL COMMODITIES[5]	WHOLESALE PRICES OF ALL FATS AND OILS	RETAIL FOOD PRICES[6]	PRICES RECEIVED BY FARMERS[7]	PRICES PAID BY FARMERS	RATIO OF PRICES RECEIVED TO PRICES PAID	CASH INCOME FROM FARM MARKETINGS[8]
Base Period	*1935-39*	*1923-25*	*1923-25*	*1924-29*	*1910-14*	*1910-14*	*1924-29*	*1913*	*1910-14*	*1910-14*	*1910-14*	*19[illegible]*
1929	110	106	110	107	107	130	97	166	146	153	95	104
1930	91	92	89	88	82	126	81	158	126	145	87	83
1931	75	78	68	67	88	107	61	130	87	124	70	58
1932	58	66	47	46	94	95	44	108	65	107	61	44
1933	69	73	50	48	85	96	48	105	70	109	64	49
1934	75	86	64	61	66	109	59	117	90	123	73	59
1935	87	91	74	69	61	117	78	126	108	125	86	65
1936	103	99	86	80	55	118	79	127	114	124	92	76
1937	113	109	102	94	65	126	82	132	121	130	93	92
1938	88	91	78	73	75	115	66	122	95	122	78	71
1939	108	100	92	84	65	113	61	119	93	121	77	73
1940	122	108	105	95	50	115	64	121	98	123	80	78
1940												
May	115	103	97	88	47	114	62	121	98	123	80	90
June	121	104	99	90	44	113	61	123	95	123	77	70
July	121	105	102	93	47	113	61	122	95	122	78	71
Aug.	121	107	106	96	32	113	60	121	96	122	79	71
Sept.	125	109	111	99	22	114	61	122	97	122	80	75
Oct.	129	111	114	101	27	115	63	120	99	122	81	80
Nov.	133	114	118	104	22	116	68	120	99	122	81	79
Dec.	139	117	123	108	20	117	70	122	101	123	82	85
1941												
Jan.	140	118	126	111	17	118	67	122	104	123	85	86
Feb.	141	119	127	111	23	118	68	123	103	123	84	84
Mar.	143	119	127	113	28	119	72	123	103	124	83	89
Apr.[9]	140	122	132	112		121	79	126	110	124	89	93
May[9]	148					124	87	128	112	125	90	

[1]Federal Reserve Board, adjusted for seasonal variation.

[2]Bureau of Labor Statistics, adjusted for seasonal variation (employment adjusted by Federal Reserve and payroll[illegible] Bureau of Agricultural Economics). Revised January 1941.

[3]Adjusted for seasonal variation. Includes factory, railroad, and mining employees. Revised April 1941.

[4]Foreign Agricultural Relations, July 1909 - June 1914 = 100, adjusted for seasonal variation.

[5]Bureau of Labor Statistics, 1926 = 100, converted to 1910 - 14 = 100.

[6]Bureau of Labor Statistics, 1935 - 39 = 100, converted to 1913 = 100.

[7]August 1909 - July 1914 = 100.

[8]Adjusted for seasonal variation.

[9]Preliminary.

Note: In comparing trends between industrial production and industrial workers' income, as indicated by the ab[illegible] index numbers, notice should be taken of the different base periods used, and of the fact that income of railw[illegible] workers, as well as incomes of mining and factory workers, is included in the index of industrial workers' incom[illegible] whereas the industrial production index is based on mining and manufacturing only. Similar precautions are ne[illegible] sary in comparing trends between industrial production and factory employment and payrolls. Another considerati[illegible] of importance is that the production index is based on volume, whereas the income indexes are affected by chang[illegible] in wage rates as well as by time worked. In comparing monthly indexes it is important to keep in mind the [illegible] that there is usually a time lag between changes in volume of production and similar changes in employment and [illegible] workers' income.